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Conflict and Control in the World Economy:

Contemporary Economic Realism
and Neo-Mercantilism

R. J. Barry Jones



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3 The Realist View of Economic Life and Contemporary Neo-Mercantilism

There are many views of economic life that contrast profoundly with the liberal perspective. The Marxist approach, in one variant or another, is one major alternative. The Realist view of economic life is less developed theoretically than the liberal or the Marxist approaches but remains highly significant. Realist views of economics underlie any academic studies, are reflected in the 'institutionalist' school of economic analysis and underlie many aspects of economic policy. Such a view is also essential if a neo-mercantilist approach to international economic relations is to have any coherent foundation.

At the outset it is, however, worth repeating that a Realist approach to economics does not entail the exclusion of any insights drawn from either liberal economics or Marxist economic analysis. The Realist approach is, rather, a broad-ranging and eclectic perspective developed from a number of basic propositions about human existence, the role of control and influence in human affairs, the nature and significance of communities and their cultures and, hence, the essential character of all relationships between societies, whether 'political' or 'economic'. The Realist approach also accepts that there are many, real gains to be secured from international trade, if it is conducted judiciously.

The view of Economic Realism that is to be presented in this chapter is located firmly within a tradition that has persisted throughout the late nineteenth and twentieth centuries. During the late nineteenth century, this approach towards the management of national economic and industrial policy was given its most developed expression by the

German political economist Friedrich List, in an argument that identified the central importance of industry and advocated systematic, if essentially temporary, protection for a country's infant industries. The successful promotion of national industries required, as many later writers have also argued, the preservation or development of suitable institutions and socio-economic structures.¹

THE BASIC PROPOSITIONS OF ECONOMIC REALISM

The Realist approach does not see economic activity as separated, or fundamentally different, from other basic aspects of human existence. Rather, the economic is merely one, albeit important, facet with many features in common with the other major areas of human activity.

Individual human beings are confronted by a world of considerable turbulence and uncertainty, with attendant threats to their well-being, both physical and psychological. An orderly and happy existence is impossible under such conditions. A major priority is to bring such turbulence and uncertainty under control. Control may assume many forms and may be pursued through many means. However, it remains a fundamental human objective which must be achieved if existence is to transcend mere hand-to-mouth subsistence.²

The environment of each individual has human and non-human aspects, both of which may be brought under control by a variety of means. The behaviour of others can be controlled through the establishment of personal influence. Brute force might coerce others, at times, and form the basis of a crude form of power. Rarely, however, will it be possible for any individual to assert his, or her, will over others without some measure of relatively voluntary compliance. Long-standing patterns of association between human beings create the conditions of such voluntary compliance. Proven competence will be acknowledged and form the basis of purely personal authority. Established societies will often have well-developed authority roles, the incum-

bents of which will receive a measure of automatic deference.³

Societies are not, however, merely the sources and repositories of collectively acknowledged authority. Societies also generate and transmit shared patterns of understanding and shared expectations that underlie the capacities of some individuals, or groups, to establish more coercive forms of control over other members of the same society. However, the capacity for coercion may remain latent, or unused, for much of the time. Compliance, under such circumstances, is therefore based more upon perceptions of capacity for, and expectations of, coercion; such perceptions and expectations being considerably influenced by established, socially derived norms and understandings.⁴

The authority and power of individuals and sub-groups is not, however, the sole contribution of society to the generation of human control. Societies are also, themselves, extremely powerful mechanisms for collective self-control. As societies develop they establish numerous rules for, and shared expectations about, behaviour. These are embodied within the basic culture of any society and create the framework of behavioural stability within which each individual is then able to operate. Such rules and expectations are, *par excellence*, means by which the uncertainty, turbulence and threat, that would otherwise confront human beings throughout their daily lives, are reduced to manageable proportions. Indeed, much of the competition or conflict that is encountered within established societies is influenced by the basic cultural rules and understandings⁵ without which such competition or conflict would soon become 'nasty, brutish and short'⁶.

The constant social collaboration that is implicit in the acquisition of shared cultures is but one aspect of the extensive cooperation and coordination that is necessary between human beings. The attempt to control the non-human environment, beyond all but the most primitive levels, also required collaboration, as early man soon found when hunting, cultivating or building, and as socialist and anarchist theories have long argued.⁷ However, while such human cooperation may be necessary, and even vital, it does

encounter difficulties. Individuals may well wish to shirk their duty, withhold their contribution, and generally 'free ride' on the efforts of others. This, as will be seen in more detail later, may create serious problems for any collectivity. Societies have, therefore, developed suitable sanctions, culturally based prescriptive and proscriptive values and a range of 'institutions' to counter such tendencies. Government, and its associated structures of 'law and order', are outstanding examples of such institutions.⁸

Human society and culture does not, however, always conform to the cohesive picture suggested above. Three issues remain outstanding. The first problem is that modern societies have become far too complex for cultures alone to prescribe effectively for all situations. There are many areas within contemporary society, therefore, in which individuals and groups may be relatively unconstrained and able to exploit the absence of effective collective control. The second difficulty is that some societies may positively prescribe a lack of clear and strong control in some areas of activity. Individuals may thus be set free in some aspects of social and personal behaviour; individuals and groups might, for instance, be presented with an unregulated market within which to undertake aspects of their economic activity. Third, and finally, there is the serious problem posed by the multiplicity of societies in the contemporary international system and their quite apparent lack of a shared culture: a feature which forms the backdrop to much of the subsequent discussion.

THE ECONOMIC IMPLICATIONS OF THE REALIST POSITION

The primary implication of the propositions about the human condition that have here been labelled Realist is that people will organize to establish advantageous patterns of control over their environments. The scope of such organization has no logical limits but does encounter boundaries created by geography, technology, the apparent demands of certain situations and issues and, by no means least, the historical

conditioning of identifiable human groups. The corollary of this proposition is that human beings can rarely, if ever, be expected to forego opportunities to preserve, or enhance, environmental control voluntarily. Roberto Michels' 'iron law of oligarchy'⁹ is thus but a special case of a wider, and most powerful, drive towards organized control.

The pursuit of control may be defensive or offensive. However, the proposition that 'the best means of defence is offence' suggests that the empirical differentiation of the two modes, or motivations, is far from easy. Some individuals or groups will seek means of overcoming adverse patterns of control; others will seek to enhance favourable conditions; while yet others will pursue enhanced capabilities with which to pre-empt, or overcome, anticipated difficulties.

The conditions which will prompt individuals and groups to undertake conscious and explicit efforts to enhance their capabilities for control will also be highly variable. Cultures largely determine human purposes and goals, beyond those of basic survival. The means through which people believe that such purposes may be pursued will also be culturally defined (even to the point of excluding quite edible foods from normal consumption, as the prohibition of various meats in some cultures illustrates). Efforts to secure additional control will be prompted by the emergence of conditions, whether actual or perceived, which threaten the successful pursuit of established goals.

The security, moreover, that is pursued through the establishment of control is significantly, if not primarily, subjective. There are therefore no clear limits to the degree of control with which any individuals or groups will be content.¹⁰ Practical calculations of the unwarranted costs of developing additional capacities for control may well exert a moderating influence but at a point which cannot be pre-determined with any analytical precision.

Culture-bearing human beings, individually and collectively, thus make judgements about tolerable levels of uncertainty, insecurity and turbulence in the environment within which they have to operate. Where acceptable levels of these disturbances are exceeded, efforts will be made to establish control. The extent of such efforts, and the resultant

control, can be determined only by those who pursue such control and/or the responses of others with whom relationships exist. Thus it is that societies may well seek to preserve conditions, and associated values, in ways that reduce 'efficiency', by narrow economic definitions, but which enhance social 'efficiency', by wider, and more valid, criteria.

The perspective outlined in the preceding sections thus reverses the view offered by conventional economic theory. The analytical presumption of liberal, and particularly neo-classical, economics, is that of the atomized individual who enters into relationships of pure exchange with others. In the world of the liberal model there are no communities, classes, trades unions, oligopolies, monopolies or multinational corporations, or none that can be identified as analytically distinct, and theoretically tolerable, phenomena. Where there is grudging recognition of such manifestations it is usually to condemn or discount them as mere aberrations.

In direct contrast to the neo-classical view, the approach developed here identifies all such 'collectivist', non-competitive, and even anti-competitive phenomena as common, natural and, indeed, a fundamental feature of all human existence, including economic activity. Whether people find themselves as consumers or producers, employees or employers, they ultimately discover the necessity for means by which uncertainty, insecurity and turbulence can be controlled. Partial organization will often suffice for such purposes, whether that partial organization be a consumers' association, trade union, cartel or monopoly.¹¹ Such partial efforts, however, are often insufficient to secure adequate levels of control over substantial segments of the economic environment. Activity has, therefore, to be directed at the level of a whole society.

Politics thus occupy a central place in the development of economic control. Politics are the mechanism through which wide-scale control can be achieved.¹² Political strength can, however, often be achieved only through the construction of a suitably large, or influential, coalition of those with differing, but compatible interests and concerns.¹³ Governments, where they emerge, reflect such requirements and aggregations of interests. The character of individual states, again,

reflects the long-term evolution of politics and government within each society: a long-term process which, moreover, is intimately involved with the development of that society's culture.

(Politics, government and the state thus serve to secure a level of control sufficient to permit orderly and fruitful economic activity,) in addition to the other well-established responsibilities in such areas as security and internal order. Each society, however, experiences a historical pattern of economic, political and cultural evolution which, in some highly significant respects, is unique. Political and cultural differences between societies then influence the divergent patterns of subsequent economic activity and development. Current political, governmental and cultural patterns are thus receptacles of past influences which may, or may not, be conducive to economic effectiveness in the present: peculiarities of culture and politics may thus, as is so evident in the contemporary world, facilitate or inhibit economic 'success'.

The 'institutional' framework within which economic activity takes place in any society is thus central to economic performance.¹⁴ This 'institutional' framework is wide ranging in its embrace but must be the starting point for any sensible analysis of economic activity within a society. It plays a central role in facilitating orderly economic (and social) activity, as well as constituting a definitive characteristic of a society. In a very real sense, a society's culture, political system, and economic institutions are its greatest reality: the sources of protection and succour for its members in the face of a turbulent, politically fragmented and often threatening world.

THE INTERNATIONAL IMPLICATIONS OF ECONOMIC REALISM

The pursuit of control over environmental uncertainty, turbulence and chronic insecurity is as compelling at the international level as it is within domestic society. The need for orderly arrangements is even acknowledged by the majority of liberal economic theorists who deem it desirable to ensure

a degree of stability within international monetary markets, and agreed rules for international trade. The Bretton Woods Agreement, of 1944, to establish a new international monetary system for the post-war world and the General Agreement on Tariffs and Trade (GATT), of 1947, gave practical expression to such concerns.¹⁵ However, many liberals are seriously restrictive in the range of such arrangements for control that they will accept as legitimate and desirable. They are also unduly optimistic in their expectations regarding the likelihood of acceptable arrangements or the incidence of conditions under which they may be introduced or maintained.

An Economic Realist perspective regards attempts to establish international control as wholly legitimate in any areas of economic life that manifest such levels of uncertainty and turbulence, actual or potential, as to undermine the well-being of the societies affected. However, Economic Realism is firmly rooted in a recognition of the fragmented character of the international political system, the self-help imperative thus engendered,¹⁶ and, therefore, the formidable difficulties that confront efforts to establish effective cooperation between, and joint control by, nation-states in any important area of activity.

It is here, then, that the fundamental paradox of international relations, both past and present, is encountered. Much of the motivation for international collaboration derives from the need to check disruptive, self-seeking behaviour. However, the effectiveness of international collaboration is, itself, often undermined by states, individually or severally, breaking ranks to secure self-serving advantages over their erstwhile partners: a 'Catch 22' which is precisely illustrated by the Prisoner's Dilemma of formal game theory.

Much of formal game theory amounts to little more than the pursuit of sophisticated solutions to ever more complex issues, which have little if any correspondence to reality but which arise from the theory itself. The Prisoner's Dilemma, in contrast, is an extremely powerful and revealing metaphor for many serious situations in international relations and, indeed, other relationships between two or more actors. At its simplest, this 'game' replicates a situation in which two

actors are faced with choices between two courses of action. The outcome for each actor depends, however, not only upon its own choice but also upon the choice that the other actor has made. It is a case, therefore, of interdependent decision making.¹⁷

Game theoretical analysis is conventionally undertaken with the aid of a matrix and outlined in the example of the Prisoner's Dilemma provided in Figure 3.1. The analysis is conducted in terms of the numerical values of the gains or losses that participants secure when they choose to 'play' one or two (or more) strategies. These values are arbitrarily selected by the game-theoretician in such a way as to allow the dynamics of different kinds of situations to be explored or illustrated.

		Actor A	
		Cooperate	Defect
Actor B	Cooperate	+30 +30	-50 +50
	Defect	+50 -50	-20 -20

Figure 3.1: an international Prisoner's Dilemma.

In the 'game' depicted in Figure 3.1, actor A and actor B both have the same choices of action—to cooperate with the other or to defect from cooperative behaviour. The options available to actor A are represented by the two columns (vertical lines) of the matrix. The options available to actor B are then represented by the two rows (horizontal lines) of the matrix. Each box of the matrix indicates what will happen in the case of each of the four possible combinations of choice of action by the two 'players'. Thus the top, left-hand box represents the result when both actor A and actor B chose to cooperate. The top, right-hand box, in contrast, represents the outcome if actor A chooses to defect from cooperation while actor B decides to continue to try to cooperate.

The outcomes—gains or losses—for the two 'players' in

this 'game' are depicted in the following manner. In each box, the figure in the top, right-hand corner is the outcome for actor *A*; the figure in the lower, left-hand corner is the outcome for actor *B*. Thus the outcomes in the top, right-hand box are +50 for actor *A* and -50 for actor *B*.

The actual outcomes indicated in the Prisoner's Dilemma are, as in all such analytical exercises, arbitrary. However, they have been chosen to illustrate the possibilities that often exist within real international relationships. In the example provided, the values have been selected to illustrate a special kind of situation. Here, both actors benefit from mutual cooperation (+30 outcome each) and, indeed, the joint outcome provides a higher level of overall benefit (+30 plus +30 = +60) than would result from any other set of choices either +50 plus -50 = 0, or -20 plus -20 = -40). Unfortunately, either actor might be tempted to try to increase its gains from +30 to +50 by defecting and giving up cooperative behaviour, while hoping that the other actor will continue to maintain a cooperative form of behaviour. Logically, however, if one actor is so tempted, then so may the other. If both actors attempt, simultaneously, to take advantage of the other by unilaterally defecting then the result will be a shift from the top, left-hand box to the lower, right-hand box in which both actors receive an outcome of -20.

The optimist might well argue that such a clearly mutually disadvantageous outcome, in which gains of +30 for both sides are converted into losses of -20 for both, should caution the 'players' against the temptation to defect from cooperative behaviour. Unfortunately, unless each actor trusts the other absolutely, each will be motivated, not so much by self-seeking greed, but by self-protective anxiety. Self-protection against the danger of seeking to cooperate while the other 'player' defects, and thus finding oneself facing the most costly outcome of -50, may be ensured only by pre-emptive defection. If this anticipatory course is adopted it is possible that an outcome of +50 will be secured, if the other 'player' continues to attempt cooperation, and the worst outcome that can be suffered, should the other actor also defect, is a mere -20: a loss that is sub-

stantially lower than the -50 against which protection has been sought by the pre-emptive defection.

International relations, in the real world, are rarely singular, or 'one-off', events. Most international relationships continue over considerable periods of time and thus look more like sequences of Prisoner's Dilemmas. The choice of options within such sequences may well be influenced by considerations of the consequences in future phases of the 'game' and by learning cooperative behaviour in past rounds. However, a degree of uncertainty continues to exist even within such sequential Prisoner's Dilemma games as a 'player' might always decide to take a short-term advantage at the expense of longer-term cooperation.¹⁸ Such a short-term approach might well follow from a disposition to discount the future significantly.¹⁹ Such a possibility is even greater in real international relations where decision-makers are subject to a far wider range of considerations than are incorporated into formal game-theoretical analysis and it may be possible to eliminate the opponent from the game, or even transform the 'game' itself.

Defection from cooperative modes of behaviour is thus a constant temptation in situations that correspond to a Prisoner's Dilemma. Defection, in such a game, promises the highest possible reward, if all goes well, while ensuring the least serious losses, if things go badly. The Prisoner's Dilemma characterizes situations in which actors have to decide whether to make costly (in some sense), but voluntary, contributions to the establishment of conditions, or facilities, that are to the individual's advantage and to the common good (collective goods). The temptation to defect, 'free ride' or defend oneself against the 'free riding' of others, undermines the capacity of collectivities to provide collective goods, however desirable they may be.²⁰

Particular conditions might encourage the members of a collectivity to make their costly, voluntary contributions to the provision of a desired collective good, but these conditions are extremely demanding in practice. If each potential contributor is convinced that its contribution will be marginally decisive to the provision of the good, then a contribution might well be made. Here, each actor believes

that if its contribution is made, there will be just sufficient total contributions to enable the collective good to be brought into existence: there will be no significant surplus above minimal requirements, nor will there be a shortfall in total contributions. In this situation, the actor contributes because it is rational to incur a cost which is necessary to secure a benefit that exceeds the cost incurred (or any other benefit that could be 'purchased' for the same cost), as has been assumed in this discussion of collective goods. It would be equally irrational, by the criteria of economic rationality, to save the cost if that entailed foregoing the higher benefits that could otherwise have been obtained.²¹

Such a solution to the problems of 'free-riding', and of securing the provision of collective goods, may be fine in logic. It is, however, impossibly demanding in all but the most exceptional of real world situations. The problem is that of ensuring that all those who have to provide their contributions to the collective good are all simultaneously convinced that their contributions are marginally decisive. If they begin to suspect that their contributions might be either superfluous, or that total contributions will prove inadequate, then they will be strongly tempted, and indeed compelled by the logic of economic rationality, to withhold their contributions. There is, therefore, a formidable problem of what sociologists would entitle 'inter-subjectivity' to be resolved before any collectivity can succeed in providing itself with desired collective goods from voluntary contributions. The character and size of any collectivity will, therefore, be decisive in determining actual capacities for the generation of collective goods, as Mancur Olson, the founder of collective goods theory, initially observed.²²

Many hostile actions can be interpreted as special cases of defection from cooperative, and mutually regarding, behaviour. Attempts to cheat, or to exert coercive influence over, a partner in a generally advantageous relationship is one such example of 'defection'. The problem with many such situations is that they involve a bargaining set, or area of mutual benefit in which the exact share to be gained by each party has yet to be determined. A situation of mutual advantage ('positive-sum', in game theoretical terms) may

thus incorporate 'zero-sum' features, in which the struggle for greater shares of the available benefits assumes a 'what you win, I lose' character. Such competition over the proportions of benefits to be awarded to participants is thus capable of degenerating into an antagonistic struggle, in which the more 'powerful' prevail and in which the 'losers' develop an acute sense of resentment. The animosities of such 'losers' might be such as to stimulate efforts to undermine, or even destroy, the very 'game' itself. International confrontations between *status quo* and *revisionist* states have had much of this flavour throughout history.²³

Involvement in a process of escalating suspicion, insecurity, hostility and antagonism is a further example of the kind of damaging departure from mutually regarding and cooperative behaviour that is all too common in all areas of international relations. Such a process has been evocatively entitled an 'arms race', whether it assumes the form of competitive restrictions upon trade, competitive currency devaluations, the competitive accumulation of armaments, or the simultaneous attempts of actors to establish 'power' over one another. Such a process, particularly in the politico-military sphere, is stimulated not merely by the manifestation of threatening intentions by one or more of the participants, but also by the very lack of security from attack that is characteristic of a fragmented international political system. Anticipation of the 'worst case' often compels societies to make just those 'defensive' preparations, or actions, that might in turn convince potential adversaries that they themselves are the subjects of a potential, or actual, threat. Power may, therefore, be pursued as a preventive measure but actually precipitate an escalatory 'power-struggle'.

Amongst those conditions that can overcome the self-defeating temptation to defect from collectively desirable forms of behaviour are the existence of a belief system, value system, or ideology, that unites the members of a society and obligates them to contribute to the collective well-being²⁴ or the existence and functioning of a variety of institutions, including governments, that are able to ensure or compel such behaviour from those who might otherwise prove recalcitrant.²⁵ Such countervailing factors, or considerations,

Interestingly do not alter the costs and benefits that are directly associated with the collective good itself: the *direct costs and benefits*. Rather, such influences constitute a set of associated costs and benefits: associated in that they do not derive from a collective good itself but are enjoyed, or incurred, as a condition of whether contributions have been made to the costs of a desired collective good. Paying taxes may, or may not, generate collective goods that are desired by those who pay those taxes: the avoidance of imprisonment is, however, a considerable associated benefit to those who might thus be persuaded to pay their taxes.

One of the unfortunate characteristics of the international system, past and present, is that it has been unable to generate sufficient associated costs and benefits at a global level to overcome 'free-rider' tendencies and hence generate desirable collective goods. In particular, the global system has been quite incapable of establishing an unifying, world-wide ideology or an effective world governmental, or quasi-governmental, system. Indeed, the contemporary international system is, if anything, characterized by the most acute ideological division and a marked degree of political fragmentation. Failures of cooperation are, therefore, all too common in contemporary international relations. Indeed, effective cooperation has usually proved possible only where the costs involved are trivial, where some ideological community exists between a small group of states, where a limited area of interest permits some states to exert a quasi-governmental influence over others, or where the momentum established by such conditions in the past has some continuing influence within a changed present.²⁶

The problems encountered in developing and sustaining cooperation at the international level can, however, often be overcome within well-established societies. Common beliefs, value systems and ideologies are precisely what a widely shared culture provides for the members of a society. Effective government, furthermore, is both a product of a well-established popular culture and a major protector and propagator of such a culture. Uncertainty, turbulence and insecurity can be reduced to manageable levels within well-functioning societies precisely because of their ability to

develop those cultural and/or governmental institutions and mechanisms that ensure constructive collective efforts: the international system, in contrast, is still characterized by threatening uncertainties and instabilities precisely because it has been incapable of generating such cultural and/or governmental resources. Indeed, while it has proved easy to induce a global recession through unilateral 'follow-my-leader' economic policies, it has been far harder to orchestrate the coordinated stimulation of economic recovery and expansion.

The international scene is not, however, marked by the constant turbulence and uncertainty that might have been suggested by the foregoing discussion. States moderate their behaviour for much of the time. International interactions are not one-off 'games', as suggested by the simple Prisoner's Dilemma outlined in this chapter. Knowledge that the 'game' will be played again tomorrow, the day after and the day after that, moderates the behaviour of all but the most determined or deluded states for much of the time. This moderation rarely induces wholly cooperative and self-sacrificial behaviour, as will be demonstrated at some length subsequently. Moderation does, however, often blunt the sharper edges of international behaviour and sustain a measure of mutual regard: a principle of reciprocity²⁷ which influences, but does not wholly dominate, international relations. The institutionalization of such self-restraining principles of behaviour may, moreover, be desired and underlie the establishment of a range of formalized international arrangements.²⁸ However, such arrangements require special conditions for the formation and maintenance and cannot therefore ultimately be relied upon for the protection of the interests and well-being of the members of any society.

The ultimate unreliability of any international arrangements thus throws societies back upon their own resources. While total isolation may be unrealistic, and even unhealthy, and autarchy unattainable, societies are ill-advised to expose themselves to substantial risks through international arrangements that might well prove unreliable, or not as helpful as might have been hoped initially. Certainly, any

international commitment, or development, that actively threatens the cohesiveness of a society's culture or the effectiveness of its government should be abjured at all costs. The undermining of the very foundations of social order and economic stability cannot be warranted by a blind leap towards the internationalist nirvanas of liberal free-trader or a world socialist order. Indeed, to the Economic Realist it is only a society with an orderly and cohesive domestic system, which has been protected from the wilder storms of the international economic ocean, that will be able to make a substantial long-term contribution to the well-being of others within the contemporary world system.

ECONOMIC REALISM IN THEORY AND PRACTICE

The discussion thus far has concentrated upon the considerations that encourage an Economic Realist view of economic life and the pressures that might prompt the adoption of Economic Realist measures in practice. It is important to note, however, that this discussion is based upon probabilistic rather than deterministic assumptions.²⁹ Economic Realism, as outlined here, merely highlights the possible responses that societies, and their decision makers, may make to the real world of economics and international relations. There may be a powerful and continuing tendency towards the adoption of these responses and practices but this will vary with time, circumstances, society and ruling regime.

The second major feature of the Economic Realist approach propounded in this chapter is that it lacks, as it must, the deductive and determinate character of neo-classical or, indeed, much of liberal economic theory. The world of economics, and particularly of international economics, will be singularly unsuited to such an approach if reality does, indeed, conform to the picture depicted thus far in this chapter.

As a theoretical structure, therefore, Economic Realism cannot constitute a neat, internally rigorous, deductive

system: rather, it provides a mixed portfolio of ideas and perspectives. First, it offers a small number of fundamental propositions about economic and international reality. Second, it surveys a wide-ranging list of societal conditions and institutions, and of governmental arrangements and practices, which might reflect or contribute to Economic Realist requirements. Third, it develops a set of arguments that relate such societal and governmental features to identifiable Economic Realist, and neo-mercantilist, impulses.

It has been argued that the first principle of Economic Realism is that the world is characterized by inherent uncertainty and turbulence and that this prompts positive action to establish control and, hence, ensure a necessary minimum of security for its inhabitants. The precise level of control that will be sought cannot, however, be determined with precision. It is people and societies themselves that will make the judgements about the levels of uncertainty that are acceptable and hence the measures that will be deemed desirable in the pursuit of control. Where competition is not found to be unacceptably disruptive, it may well be tolerated and even encouraged. Where competition is seen to be unhelpful it will be regulated or suppressed. Again, cooperation with others to develop increased control over some area of behaviour, or a part of the environment, will be pursued as far as the involved societies deem it to be desired and the costs justifiable.

It is, however, not merely the frequency of efforts to develop control within, or amongst, societies that varies; the forms of control, and their practical effect, may also differ. A society that is experiencing difficulty in maintaining a healthy balance of external trade may avail itself of a range of measures. Its response may range from the imposition of trade restrictions to a variety of systematic efforts to restore the competitiveness of its industries and internationally traded services.

There is also a cyclical pattern in the relationship between the nature of a society and the practices that it will adopt in responding to the pressures created by an uncertain and turbulent environment. The very culture, and set of institutions, that is to be protected also exerts a considerable

influence upon the measures that will be deemed desirable or acceptable. Cultural variation thus underlies much of the variation in the approach of societies to economic and international economic policy. This variation makes it difficult to establish a straightforward correlation between given contextual conditions and identifiable patterns of response.

As a general principle, Economic Realists and neo-mercantilists would contend that modern societies generate increasing pressures for governments to promote the economic well-being of their citizens. Such modern societies are complex and generally democratic. Complexity, and the associated growth of an intimate functional interdependence between individuals, and between sections of society and economy, makes uncertainty and turbulence increasingly intolerable. The advent of democracy also makes government more answerable to popular demands which, whether ill informed and irrational or guided by a ground-swell of common sense, may exert pressures towards governmental intervention in economic life, both domestic and international. Indeed, such pressures may even be felt in those complex industrial societies where formal democracy (in the Western sense) has not been implemented. The costs of disorder, or even in passive resistance, in such a societies may be such as to counsel governments towards a degree of popular responsiveness.³⁰

It is not only individuals and societies that respond to environmental uncertainty and turbulence by seeking to establish control and, in this endeavour, generating something akin to a culture or an ideology. Such associations of human beings may assume many forms, including private business enterprises, transnational political movements, world religious organizations and international terrorist groups.³¹

Such non-societal associations, including private business enterprises, often make considerable efforts to develop analogies of ideologies and cultures that have many of the characteristics of political ideologies and cultures. The 'culture' of many of the major multinational corporations is part of the folk-lore, and even demonology, of many students of such world-bestrident enterprises. Many other trans-

national entities are equally able or keen to engender systems of value, belief and understanding within their adherents that will also have the effect of sustaining members, reducing uncertainties and generally enhancing control.³²

Private enterprises may thus seek to reduce the uncertainty that stems from an uncontrolled environment. Competition may be a major source of such uncertainty, and its minimization through the establishment of a dominant position within any area of production or trade is often the objective of the more dynamic and effective enterprises. Such a position may be sought individually, through the creation of a monopoly, or collectively through the establishment of an oligopoly or cartel.

Governments may be a further source of difficulty for private enterprises and this, again, may be combated through a variety of means. The capacity to exert pressure upon governments is clearly a major advantage here and may be achieved in a number of ways. A firm may seek to establish a strategically vital position in the economy, the production of a vital good or the supply of the government, itself. Again, firms may act with others to develop industrial pressure groups which can lobby governments directly or seek to exert indirect influence through the manipulation of public opinion. Extensive opportunities to evade, or overcome, governmental pressures are also available to companies that are able to operate on a transnational basis, as will be discussed in greater detail subsequently.

CONCLUSIONS

Economic realism, and its neo-mercantilist corollary, thus offers a significantly different view of economic reality to that offered by both liberal/neo-classical and Marxist theory. Its claims to acceptance rest more upon its essential realism rather than the elegance of its theoretical formulations. It offers not so much a rigorous theory but, rather, a realistic disposition which can permit a less doctrinaire view of, and judgements about, a wide range of policies and practices that are often adopted in the real world.

The Economic Realist/neo-mercantilist approach to economics, and to economic and industrial policy, has powerful implications at all levels of economic life. It will be the purpose of the next section of this study to explore these implications in greater detail. The order in which this will be undertaken, however, reflects a basic premise of the study: that it is difficulties that stem from the nature and functioning of the international system that generate the ultimate pressure for societies, and their governments, to adopt clear and positive measures to ensure their well-being—measures in the economic realm, as well as the more conventionally accepted areas of political and military relations.

Part III thus starts with a more detailed examination of the contemporary international economic system. The purpose here will be to identify those many areas in which governments and other transnational actors seek to impose order upon the system, or some of its component parts. It will, however, be concluded that cooperation and control in international relations continue to encounter substantial obstacles. A powerful pressure is thus maintained upon societies and governments to ensure their own well-being. Subsequent chapters in Part III explore the many areas in which such efforts are directed, and the wide variety of means through which these efforts may be channelled.

NOTES

1. Friedrich List, *The National System of Political Economy*, (London: Longmans, Green and Co., (English Edition) 1922); On List, see Eric Roll, *A History of Economic Thought*, (London: Faber and Faber, (4th ed.) 1973), pp. 227–31 and, for more recent works within this general tradition see D. P. Calleo and B. J. Rowland, *America and the World Political Economy: Atlantic Dreams and National Realities*, (Bloomington: Indiana University Press, 1973) and Dudley Seers, *The Political Economy of Nationalism*, (Oxford: Oxford University Press, 1983).
2. On entropy and its manifold implications, see Norbert Wiener, *The Human Use of Human Beings*, (New York: Houghton Mifflin, 1950).
3. For a most effective discussion of the concept and bases of 'power' and 'authority' see Dennis Wrong, *Power: Its Forms, Bases and Uses*, (Oxford: Basil Blackwell, 1979).

4. See, for instance, S. R. Waldman, *Foundations of Political Action: An Exchange Theory of Politics*, (Boston: Little, Brown, 1977), esp. Ch. VI; and R. A. Dahl and C. E. Lindblom, *Politics, Economics and Welfare*, (New York: Harper Row, 1953) esp. Part IV.
5. See, especially, F. G. Bailey, *Stratagems and Spoils: A Social Anthropology of Politics*, (Toronto: Copp, Clark, 1969); D. K. Kavanagh, *Political Culture*, (London: Macmillan, 1972); S. Verba, *Small Groups and Political Leadership: A Study of Leadership*, (Princeton, NJ: Princeton University Press, 1961), esp. pp. 29–45 and 54–6; and B. Barry, *Sociologists, Economists and Democracy*, (London: Collier-Macmillan, 1970), esp. Ch. III.
6. With due acknowledgement to Thomas Hobbes, *The Leviathan* (1651, various editions).
7. See, for instance, F. Engels, *The Origin of the Family, Private Property and the State*, (original publication, 1884). (Moscow: Foreign Languages Publishing House); Prince Peter Kropotkin, *Mutual Aid: A Factor of Evolution*, (Harmondsworth: Penguin Books, 1939); P.-J. Proudhon, *The Principle of Federation*, trans. R. Vernon, (Toronto: University of Toronto Press, 1979 [originally, Paris 1863]); and G. Woodcock, *Anarchism: A History of Liberation Ideas and Movements*, (New York: The World Publishing Co., 1962).
8. As is the central argument of N. Frohlich, J. A. Oppenheimer and O. R. Young, *Political Leadership and Collective Goods*, (Princeton, NJ: Princeton University Press, 1971).
9. See T. B. Bottomore, *Elites and Society*, (London, C. A. Watts, 1964); esp. Ch. 6; and see also Dahl and Lindblom *op. cit.* esp. pp. 279–80.
10. As critics of Riker's principle of 'minimum winning coalitions' in alliances have argued. See S. Brams, *Game, Theory in Politics*, (New York: Free Press, 1975), esp. pp. 213–232; and see also W. H. Riker, *The Theory of Political Coalitions*, (New Haven: Yale University Press, 1962).
11. See, especially, W. J. Samuels, *The Economy as a System of Power*, Vol. 1, (New Brunswick: Transaction Books, 1979), Part 2.
12. See Dahl and Lindblom *op. cit.* Ch. 4.
13. Some, albeit partial, illumination of this point is provided by notions of 'political entrepreneurship', see N. Frohlich and J. A. Oppenheimer, *Modern Political Economy*. (Englewood Cliffs, Prentice-Hall, 1978), Ch. 4.
14. An argument which is common to a wide range of economists from American 'institutionalists'—see Samuels, *The Economy as a System of Power*, Vol. 1 *op. cit.*; and W. J. Samuels, *The Methodology of Economic Thought*, (New Brunswick: Transaction Books, 1980)—through such classical revivalists as David Simpson, *The Political Economy of Growth*, (Oxford: Basil Blackwell, 1983); through to such marxists as Paul Baran, *The Political Economy of Growth*, (New York: Monthly Review Press, 1957).
15. See, in particular, F. Hirsch, M. Doyle, E. L. Morse, *Alternatives to Monetary Disorder*, (New York: McGraw-Hill, 1977), esp. pp. 25–34;

- J. E. Spero, *The Politics of International Economic Relations*, (London: George Allen and Unwin, 2nd. edn., 1982), pp. 33–41; R. O. Keohane and J. S. Nye, *Power and Interdependence: World Politics in Transition*, (Boston: Little, Brown, 1977), esp. pp. 78–81; and J. H. Richards, *International Economic Institutions*, (London: Holt, Rinehart and Winston, 1970), Ch. 2.
16. See: R. W. Tucker, *The Inequality of Nations*, (New York: Basic Books, 1977), esp. Ch. 1; H. J. Morgenthau, *Politics Among Nations: the Struggle for Power and Peace*, (New York: Alfred Knopf, 4th edn., 1947).
 17. On the Prisoner's Dilemma see: Brams *op. cit.* pp. 30–9; and M. Nicholson, *Conflict Analysis*, (London: English Universities' Press, 1970), pp. 60–6.
 18. Nicholson, *Conflict Analysis op. cit.* esp. pp. 69–70.
 19. See, particularly, M. Nicholson, 'Co-operation, anarchy and "random" change', in Barry Buzan and R. J. Barry Jones (eds.), *Change and the Study of International Relations*, (London: Frances Pinter, 1981).
 20. See, especially, Mancur Olson, *The Logic of Collective Action*, (Cambridge: Cambridge University Press, 1965); and Frohlich and Oppenheimer, *Modern Political Economy op. cit.*, esp. Ch. 2. See also the discussion in Chapter 2 of this volume.
 21. N. Frohlich and J. A. Oppenheimer, 'I get by with a little help from my friends . . .', *World Politics*, Vol. 20 (1970), pp. 104–20.
 22. Olson *op. cit.* esp. Ch. 1.
 23. For a more formal analysis see Nicholson, *Conflict Analysis op. cit.* Ch. 5.
 24. Olson *op. cit.*
 25. Frohlich, Oppenheimer and Young, *Political Leadership and Collective Goods op. cit.* It is also possible that social or material rewards might secure such contributions. Anarchists, of course, contest the need for such 'Hobbesian' governmental institutions, believing that appropriate cultural and societal norms would suffice; see: April Carter, *The Political Theory of Anarchism*, (London: Routledge and Kegan Paul, 1976); and M. Taylor, *Anarchy and Cooperation*, (New York and London: Wiley, 1976).
 26. See R. O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, (Princeton: Princeton University Press, 1984).
 27. The principal of reciprocity has often been held to underlie the development of behavioural 'norms' in international relations. See T. M. Frank and E. Weisband, *Word Politics: Verbal Strategy Among the Superpowers*, (New York: Oxford University Press, 1972).
 28. Such arrangements often being termed, somewhat controversially, 'regimes'. See, especially, Keohane and Nye, *Power and Interdependence op. cit.*; and Keohane, *After Hegemony op. cit.*
 29. For a discussion of probabilism and possibilism see H. and M. Sprout, *The Ecological Perspective on Human Affairs*, with Special Reference

- to International Politics, (Princeton, NJ: Princeton University Press, 1965); and for a general discussion of philosophy and methodology in international relations see J. E. Dougherty and R. L. Pfaltzgraff, *Contending Theories of International Relations*, (Philadelphia: Lippincott, 1971).
30. On the political effect of modern societies see: E. L. Morse, *Modernization and the Transformation of International Relations*, (New York: Free Press, 1976), esp. Ch. 1; and H. G. Johnson, 'Mercantilism: past, present, future', in H. G. Johnson (ed.), *The New Mercantilism*, (Oxford: Basil Blackwell, 1974).
 31. See, especially, R. O. Keohane and J. S. Nye, *Transnational Relations*, (Cambridge, Mass.: Harvard University Press, 1972).
 32. There is a vast literature on the multinational corporation, amongst which is: R. E. Mueller and R. J. Barnett, *Global Reach: The Power of the Multinational Corporation*, (New York: Simon and Schuster, 1974); G. Tugenhadt, *The Multinationals*, (London: Eyre and Spottiswoode, 1971); and R. Vernon, *Sovereignty and Bay: the Multinational Spread of US Enterprises*, (London: Longman, 1971).